DANN ASSET ADVISORS, LLC

Third Quarter 2017 Update

October 13, 2017

3Q17 Highlights

- Stocks continue rising with muted volatility
- Hurricanes likely restrained 3Q GDP growth; rebuilding may add to the 4Q
- Fed expects to increase rates one more time in 2017; beginning to reduce balance sheet
- Republicans turn to tax reform following failure to repeal the Affordable Care Act

The table below summarizes the performance of some key indices during the third quarter and year to date:

Market Performance		
Index	% Ch. 3Q17	% Ch. YTD
S&P 500	4.5	14.2
MSCI Developed Markets (excl US)	5.4	20.0
MSCI Emerging Markets	7.9	27.8
MSCI All Country World	5.2	17.3
US Aggregate Bond (1)	0.9	3.1
Liquid High Yield (1)	1.7	6.2
US Dollar Emerging Markets Bond (1)	2.7	9.2

(1) Barclays indices

Equities. With a 4.5% return in the third quarter, U.S stocks (as measured by the large company S&P 500 index) have generated positive returns for eight straight quarters. In contrast to the first two quarters of 2017, the third quarter's advance was more balanced. The Russell 2000 index of small company stocks returned 5.7% after having lagged the S&P 500 by over 400 basis points during the first half of the year. And while growth stocks continued to outperform value stocks, the margin narrowed considerably in the quarter. The month of September was particularly good for economically sensitive stocks, as investors seemed to become more confident in a stronger economy and/or the potential for lower corporate tax rates.

International markets on the whole had another good quarter, led again by emerging markets and China in particular. If current trends hold, 2017 will be the first year since 2012 that international stocks have outperformed the U.S. In our opinion, international stocks have been strong in 2017 because economic growth abroad has been better than anticipated. The weaker dollar also has enhanced U.S. investors' returns. Despite strong year to date performance, international markets on the whole remain less expensive than the U.S.

Fixed income. Ten year Treasury yields were essentially unchanged in the quarter, beginning at 2.30% and ending at 2.33%. These rates mask some modest intra-quarter volatility, with yields having fallen as low as 2.10% early in September as rhetoric between the U.S. and North Korea escalated and expectations for Fed interest rate increases temporarily dimmed. Two year yields rose modestly at quarter end as the likelihood of a December rate hike increased. As indicated above, more speculative, higher yielding sectors of the bond market fared better than the Barclays U.S. Aggregate Bond index as investors continue to search for yield in what remains a historically low rate environment.

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Market sectors. The best performing broad market sectors during the third quarter were technology, energy and materials companies. Technology has been the leading sector all year, fueled, we believe, by investors' searching for growth in combination with safety (safety stemming from the financial strength of the largest companies that dominate the market cap of the sector). Energy and materials both rebounded in the quarter, likely due to strengthening commodities prices and perceptions of improving economic growth. Energy remains the worst performing sector year to date.

The third quarter's worst performing sectors were consumer staples, REITs and telecommunications. The consumer staples sector (companies like Procter & Gamble, Coca Cola and Philip Morris) generally is perceived as slow growing but stable. Our perception is that pricing power for many of these types of companies is becoming increasingly difficult, and with Amazon's purchase of Whole Foods investors have become more cautious on the group. REITs and telecommunications stocks often move inversely to interest rates; with shorter term rates rising in September this may have had a negative impact on these two groups. REITs also are under pressure due to retail/mall issues, and the U.S. telecommunications sector has slowed as the cell phone market has matured and price competition has increased.

Portfolio Positioning

For most clients we did little trading during the third quarter, with the only common transaction across a number of accounts being to raise a bit of cash as the market continued its uninterrupted rise. On fixed income we made no significant changes, remaining focused on shorter duration, investment grade bond funds. Despite the relative lack of activity, we continue to monitor existing positions and research additional funds and individual stocks. We believe we had a productive quarter uncovering new investments that we may add to client portfolios in the future.

Economy

U.S. GDP grew 3.1% in the second quarter, a meaningful increase from 1.2% in the first quarter. For the first half of 2017, growth averaged a bit over 2%. In part due to a reduction in the savings rate, consumer spending rebounded to 3.3% in the second quarter, up from 1.1% in the first. Robust business investment (the strongest in two years, reflecting a recovery in the industrial side of the economy) and trade also contributed to second quarter growth. Inflation remains below the Fed target of 2%, with the most recent core personal consumer expenditure price index (index used by the Fed) rising only 1.3% annually in August.

Initial expectations for third quarter growth were 3.0% or higher, but with two significant hurricanes restraining activity the current consensus is for 2.0%-2.5%. Regardless of the actual number, third and fourth quarter growth rates likely will be moderately distorted by the hurricanes' impact. Absent hurricane effects we had expected GDP growth to be strongest in the second and third quarters with a pullback in the fourth. With the hurricanes we expect 4Q17 and 1Q18 will show greater than 2% growth, absent unforeseeable events.

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